

DETERIORATING ECONOMIC CONDITIONS AND THEIR IMPACT ON NATIONAL SECURITY

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Abstract

The paper reviews the connection between economy and national security. The deteriorating economic conditions are threatening all segments of life and dependence of national security on viable economy is evidently noticeable in today's environment. National security is a requirement for maintaining the survival of the state through the use of economic power, diplomacy, power projection and political strength. National security is not a static concept and is ever changing with the transmuting environment. Core interests of our nation cannot be protected through military muscles alone, while neglecting economic development. Pakistan is witnessing economic down-turn due to domestic and international financial crises. Huge accumulation of foreign and domestic debt has complicated the economic revival. The security situation has made the economic recovery difficult and due to unprecedented problems in the country, various macro-economic targets have suffered set-backs in the past. Large fiscal deficits, population growth, higher unemployment, coupled with weak national security require a fresh approach to revive economy. Pakistan is facing multi-dimensional threats and the problem is far more serious, for our very survival is at stake, warranting immediate and long-term remedial measures. Pakistan's national security can be ensured through uplift of economic revival at grass-root level, coupled with national integration, interfaith harmony and development in education sector.

Key Words: Economic Revival, National Security, Foreign and Domestic Debt, National Integration,

Introduction

Pakistan's economy is in critical condition due to macro-economic mismanagement; large budget deficit, and huge internal/external debt¹, resulting in Pakistan knocking at the doors of IMF for 13th time². In the past, the major characteristic of economy has been fiscal deficit and inconsistent growth, which was offset by subsequent periods of instability that compounded the problem³. It is generally agreed that Pakistan's economy is heavily dependent on external debts and foreign aid and it has major structural issues, which have

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inhibited its sustained progress. While the economy continues to bleed profusely, fragile security environment has further exacerbated the problems.⁴

The alarming and precarious economic vulnerabilities give rise to many fundamental questions; as to whether Pakistan's impoverished economy has its root cause in its defense needs and expenditures or there are other factors which lie at the bottom of this economic malaise? Conversely, a more serious issue is as to what extent the reeling economy adversely impinges upon the national security, especially its aspect related to armed forces?⁵ The effects of such a grim state of economy on the domestic elements of national security merit incisive analysis. Furthermore, the exact nature of the risks to the national security in the event of an economic melt-down has to be ascertained.⁶

Pakistan has completed over 70 years of independence with fluctuating economy and has been facing multiple national security threats since its inception.⁷ Various governments, despite having recognized the importance of economic development, were not able to put the country on the path of a sustained long-term development. Due to the national security dilemma faced since independence, the focus has been shifting drastically with little benefit to Pakistan's economy and security as a whole.

The problematic concern on the subject is identification of a winning strategy against diversified threats, both external and internal, to national security. In the changing world of globalization, the huge unsustainable debt burden, unprecedented budget deficit, huge imbalance in the international trade and high unemployment have brought economy more into play in consideration of national security. National security threats of diversified nature have made it difficult to find and sustain crucial defense spending.

Today Pakistan is facing serious challenges to its national security due to weak economy, corruption, inflation, and huge domestic and foreign debt. Pakistan stands with a staggering population of over 210 Million, out of which youth constitute 63%, making Pakistan the fifth youngest country in the world, 150th out of 189 countries in the human development index, home to third largest population of stunted children under five, 77th amongst 109 countries in food security index, with a huge 44 % children remaining out of schools.⁸ While every government has propagated its agenda and fixed priorities to address short term issues relating to economy and national security, a wholesome

solution has not been found, to arrest shifting priorities with every regime change.⁹

Regional Geo-Strategic Milieu

Located at the confluence of four sub-littoral systems, the geo-strategic significance of Pakistan has made it a victim of its own geography. Pakistan is still carrying the burden of injustices of the partition of India, with Kashmir epitomizing the unfinished agenda of the partition. Kashmir has remained the flashpoint between two hostile neighbors, forcing diversion of the much-needed economic resources towards national security. Faced with existential threats, Pakistan was left with no other choice, but to maintain a large standing army to thwart the Indian designs of undoing the creation of Pakistan.

Whereas, India continues to be the main threat to the security of Pakistan, other neighbours too do not put the policy planners in any comfortable position. Pakistan is just recovering from a prolonged fight against internal threats and the entire nation has paid a heavy price for it, both in terms of human as well as economic losses. Secondly, Afghan imbroglio with huge Indian footprints continues to pose serious challenges to our porous western borders. In our west, Iran is under tremendous pressure from Trump administration and facing sanctions that have crumbled her economy. The ongoing Iran-Arab rivalry is adding to the regional tension, thus, raising the specter of a regional conflict, resulting in global oil crisis. The regional security calculus leads us to deduce that with security problems all around, Pakistan cannot remain aloof from such developments and has to safeguard her integrity at all costs, the opportunity cost notwithstanding.

Correlation between Defence Expenditure and Economic Development

The debate on the correlation, whether positive or negative, between defence expenditure and economic development remains unabated with both protagonists and antagonists presenting their set of arguments. Keynesian school of thought advocates that military spending increases aggregate demand by stimulating output, employment and economic growth. Neo-classical school of thought, however, contends that military expenditure diverts resources and causes economic stagnation.¹⁰ Benoit's hypothesis positing a causal and positive correlation between defense expenditure and growth in less developed countries

(LDCs) is a case in point. His main hypothesis contends that defense burden is positively correlated with growth rates in LDCs. Furthermore, the chain of causation is such that a high defense burden causes the growth rate to rise¹¹. The same positive correlation has been confirmed by a research study conducted on the effect of defence expenditure upon the economic growth by our adversary i.e. India.¹² Positive log-run relation between defence expenditure and economic development has also been established by another study with evidences from India, Pakistan and China using co-integration and causality analysis.¹³ The classic case for establishing the positive correlation between defence expenditure and economic growth is the case of South Korea under General Park Chung-hee under whose rule, Korea achieved unprecedented developmental milestones.¹⁴

Overview of Pakistan's Economy - Plans and Reforms

The factors and scenarios at the time of independence, which included scarcity of resources, infrastructure and trained personnel had a great impact on the economic shaping of the country and its development in the following years.¹⁵ Despite all the odds, Pakistan was able to stabilize and sustain the initial shocks related to independence. At that time, Pakistan had a population of 30 Million with US\$ 50 average per capita income. Agriculture accounted for almost 50% of economic output, with hardly any industrial production.¹⁶ The deterioration of relations with India set the stage for according top priority to defense. From there on, Pakistan has come a long way. With a massive 180 million population, growth rate of economy swelled with country's per capita income growing to US\$ 1000 in 2011. Pakistan came up as the third largest producer of rice, among top five major textile producing countries and fifth largest milk producer. Overtime, the manufacturing and service industries also progressed and today account for 20-25% of the GDP.

Pakistan adopted a series of the Five Years Plans for the National Economy for centralized economic planning after its independence in 1947.¹⁷ Developed by the Economic Coordination Committee of Ministry of Finance, the plans were based on the cost of production value and trickle down systems. The first plan (1950-55), under the leadership of Liaquat Ali Khan, was aimed at rapid industrialization of the agro-based economy. Eight such plans were planned and executed till 1999 and later on, such plans replaced by Medium Term Development Framework by Musharraf regime.¹⁸ The plans and the reforms

conceived in such plans began with much fanfare, but their objectives could not be achieved due to a host of reasons, including the 1965 war, natural calamities, dismemberment of Pakistan, and the nationalization policy of Bhutto. Ayub's regime is considered the golden period of Pakistan's economy.¹⁹ Most of the economic reforms introduced by the successive governments were aimed at putting the economy back on the track to sustainable growth and development. In 1960s, Pakistan was a model developing country with growth averaging around 6%, when India was lagging behind by 3% growth.²⁰ It was a mixed economy model, introducing reforms in all sectors, including agriculture, education, legal, land, trade and taxation simultaneously. The model was emulated by many others. While these reforms were yet not entrenched, the 1965 War, the East-West divide on economic disparity and political agitation forced Ayub Khan to resign, that resulted in a premature scuttle of the reforms. The fall of East Pakistan and subsequent nationalization of the economy further compounded situation. The reforms introduced in 1970s aiming at liberalizing the external trade and a unified exchange rate yielded no dividends due to unprecedented inflation. Zia's military regime could not reverse the impact of nationalization and continued to rely on state-owned enterprises and nationalized banks. The foreign remittances by large work force employed in Middle East and the dollars poured in due to Russian invasion of Afghanistan provided a succor to economy for a short period, however, it was at the cost of neglecting the domestic policy reforms.

The 1980s saw a shift in economic thinking, aimed at Structural Adjustment Programme, advocated by WB and IMF, leading to policy reforms becoming the dominant paradigm of developing economies, thus, enticing Pakistan to enter into arrangement with IMF in 1988. A major reform process was initiated in 1991 through Economic Reforms Order with its focus on liberalization, privatization and deregulation.²¹ The political instability, poor governance, corruption and lack of ownership by succeeding government contributed to economic crisis instead of expansion of economy, while similar reforms and their ownership by subsequent political dispensation led to a turn around in Indian economy. 1988-1999 was a period of political tug of war and economy remained on the back seat, and each succeeding government completely disowned the economic policies of its predecessor. 2000-2006 saw lot of attention being paid to economic reforms by Musharraf Government. During this period, Pakistan met the performance criteria of Stand-by Programme and the Poverty Reduction and

Growth Facility (PRGF) was negotiated with the IMF. The success stories in that period included privatization of banks, trade and tariff reforms, financial sector reforms, encouraging private sector and reforms in higher education.²² But in 2009, Pakistan was once again forced to approach IMF for a bail-out and a reform package, mainly for mobilizing additional taxes to bring fiscal deficit under control was agreed upon. The programme fell short of its successful completion, owing to lack of political consensus on GST and AIT. This further impacted the economic growth during 2008-12. The success factor in any reform is its ownership by the leadership, which remained a missing link in all such reform efforts in case of Pakistan. The successive governments have been found evasive on implementing the reforms, earning the disrepute of being 'One-tranche country'.²³ Another factor impeding the progress on reform process has been the reversal, discontinuity and lackluster implementation record.

Current Economic Situation

It is generally agreed that Pakistan's economy has been heavily dependent on external aid and has major structural issues. The current condition of Pakistan's economy has once again forced its economic team to seek a bail-out package from IMF. Huge borrowing from IMF has increased the external debt burden, whereas, reduced fiscal space has grossly limited the development. The depreciation of Rupee against foreign currencies has further compounded the issue of debt servicing. The alarming level of inflation (above 12 %) is a cause of serious concern. The country has not been able to fully cope with economic pressure.²⁴ The following economic indicators, shown in Table-1 depict the situation from 2011 to 2018:

Table - 1: Economic Statistics of Pakistan

Indicators	Year 2011	Year 2018	% Change (7 Years)
Population	180.7	207.8	15
GDP Growth Rate	3.8	5.5	44.74
GDP (US \$. bn)	182.28	253.93	39.31
GNI Per Capita (US Method)	1038.86	1260.27	21.31
Inflation	11.92	5.08	-57.38
Foreign Exchange Reserve (Millions US \$)	211.37	117.84	-44.24
Trade Exports	24.54	23.56	-3.99

Statistics	Imports	34.29	55.07	60.6
Fiscal Deficit (as % of GDP)		5	6.6	32
Domestic Debt (Million Rupees)		6,017	16,416.3	172.83
External Debt (Million Rupees)		3988	10952.9	174.65
Poverty Headcount Ration (% of Population)		36.3	24.5	-32.51

Source: World Bank Data; Trade Economics; State Bank of Pakistan; Ministry of Finance²⁵

The economy has shown deterioration over the last decade mainly due to mismanagement, rise of oil prices, global recession, and natural disasters like floods, which have posed tremendous economic challenges and exposed the fragility of our economy. While an improvement in the law & order situation is necessary for stimulating investment and growth, the pattern of future growth must seek to provide social justice through simultaneous social and economic growth. The response to meet economic challenges has not been commensurate with the enormity of the task. Unabated fiscal pressures, energy and water shortage, and the internal security situation are expected to constrain the growth.²⁶

National Security- Concepts and Implications

National security is a fundamental need of any state for its survival and existence. Power projections, political connections, diplomatic linkages, economic prosperity and maintenance of law and order are encompassed in the domain of national security. It includes ensuring socio-economic security of the nation.²⁷ Every state has different core factors, values and interests determining its strategic approach, which revolve around national security and economic growth. These factors, values and interests change according to the prevailing scenarios and are termed as 'interchangeable'.²⁸ The pillars of national security are national causes, united purpose and clearly narrated objectives. According to John C. Gannon, multiple factors determine the direction and play their role in shaping of national security, which include geographic location, demographical statistics, health and basic nutrition, education, natural resources, environment, technology, governance and most importantly, financial state and economic conditions prevailing in the country.²⁹ When national security of Pakistan is analyzed in such context, the findings reveal that

internal conflicts due to ethnic, religious, political and cultural divides are also counted as propelling forces.³⁰

Economy and National Security: Imperatives and Integration

Owing to the globalization and capitalization of the market the world over, mutual interdependence and interests have changed the entire dynamics of national security and economic issues. Due to this interdependence, the economic dimension has entered into the realm of national security, as an indispensable factor.

The economic dimension has two aspects viz: internal and external. The internal issues include poverty, uneven development, governance, unemployment etc. The external issues regarding world economy could be industrialization, challenges due to globalization, vulnerabilities due to liberalization, global upheaval and recession and manipulation by global institutions. Though the economic prosperity cannot be immediately translated into military strength, yet for military muscle, economic prosperity is essential. But to divert the resources more to the military means less growth and more tax burden on public, whereas, fewer resources for the military means compromises on the security infrastructure. Thus, the choice between economic prosperity and national security puts every policy planner in a dilemma. The situation has further worsened after 9/11, with the emergence of the GWOT in our neighborhood, putting a tremendous strain on our economy, infrastructure and feeble security apparatus. In addition, the global financial crisis and recession have highlighted the trade-off between spending to protect against external threats and spending to provide jobs and income for citizens at home.

Role of Economy in National Security

Paul Kennedy has aptly correlated the link between economy and security by stating that “Nation’s military strength rests on economic strength.” Defence is a unique phenomenon, as national security is always totally, publicly funded. In resource constrained economies, such as Pakistan, it is imperative that the expenditure on defense and security should never beat the cost of development; rather it must leverage the development process.

Political, economic, societal and ecological threats to a state can threaten its integrity, particularly, if there is large economic disparity within the state. This disparity has little to do with the military, economic or political power of the state, but instead refers to the strength and resilience of state institutions, such as government, economic machinery and societal cohesiveness. Economically weak states with fragile societal cohesion and economic disparities tend highly to face security challenges. Stronger states face different challenges, which are more indirect and distant and usually external in content.

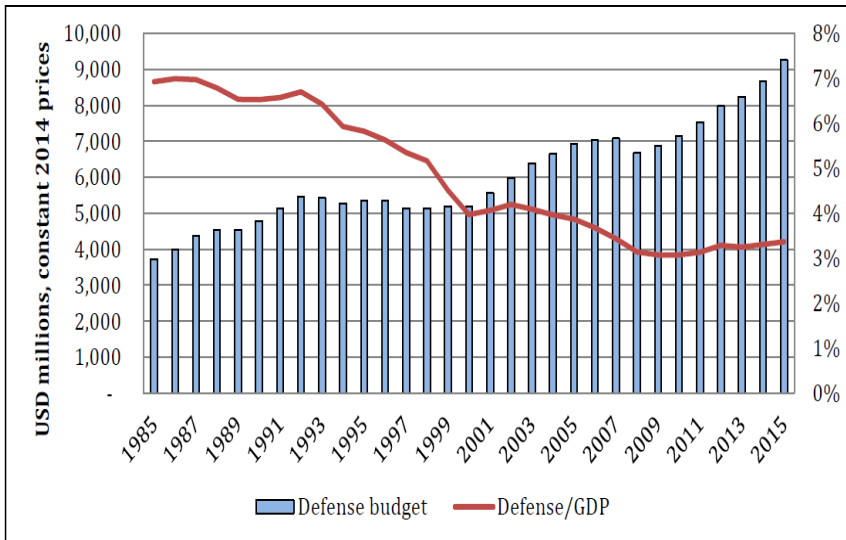
Political Economy of National Security

Political economy focuses on the interrelationships among individuals, governments, and public policy. The edifice of Pakistan's security policy is based on the premise that India would not leave any stone unturned to undo Pakistan. This assertion has been substantiated by repeated Indian ventures to harm Pakistan. Though the skeptics of national security have been constantly harping on the downside of spending on defence, the school of thought advocated by Robert McNamara suggested that security implied the freedom of a state to develop and improve its position in the future. He remarked, "Security is development and without development there can be no security development means economic, social and political progress. It means a reasonable standard of living, and reasonable in this context requires continual re-definition."³¹ Though the huge defence overlay cannot be separated from the economic malaise that Pakistan continues to suffer, it is the political mismanagement and lack of will to address the economic woes on long term basis. Resultantly, barring a few initial plans, the five years development plans could not culminate successfully due to political expediencies. This lack of political resolve to address the long-term economic problems resulted in inappropriate utilization of foreign loans.

Relationship between Economic and Military Elements

Too often, national security is viewed within a military framework, but that is too narrow a context for the 21st century. In a broad definition of national security, the military may need to play a role to help integrate, though not control, the many 'voices' that come together to define a nation's security. The first record of modern economic thought on defense expenditure is attributed

to Adam Smith. “The first duty of the sovereign’, he wrote in 1776, “is that of protecting the society from the violence and invasion of other independent societies can be performed only by means of a military force. Both the expenses of preparing this military force in time of peace and employing it in times of war are very different in different states of society, in the different periods of improvement.”³²



Source: Mason, Shane. *Military Budgets in India and Pakistan: Trajectories, Priorities, and Risks*. Stimson Center, 2016.

The inevitable expenditure on its defence has eclipsed Pakistan’s economy since its independence, forcing Pakistan to divert its much needed attention from spending on the development to maintain a minimum defensive capability against Indian aggression. Pakistan’s defence budget touched almost 8% of the GDP in 2015 and has now increased to 10 % of GDP. The US and Western aid in CSF and defence related procurements coming under sanctions, Pakistan has less room to modernize its defence forces due to budget constraints and purchase difficulties. It was projected in a study that in 2016, Pakistan would spend at least \$747 Million on nuclear weapons, whereas, India would spend \$ 1.9 Billion. In the longer run, Pakistan would feel pressure on conventional military balance due to limitation on economic side, whereas, India would have greater flexibility. Pakistan, therefore, is gradually becoming more dependent on the nuclear weaponry in order to offset the Indian threat, which is certainly taking its toll on its conventional capabilities.³³

Economic Prosperity and National Security

National security considerations naturally arise when a country faces the coercive use of economic leverage by another state in matters of high diplomacy. Any external dependence for vital economic supplies that can be exploited in coercive attempts is vulnerability. National security concerns arise when vital national values (i.e., core values) are perceived as being threatened by adverse foreign actions and events or by domestic failures to provide the means of coping with any external threats, whether actual or potential. National security goes beyond physical: internal security requires certain levels of welfare and stability to retain support for the state as constituted.

The situation during past 2-3 decades has clearly depicted that security and economics interlock, especially with reference to Pakistan has had an adverse impact on the well-being, harmony, peace and stability of the country. The omnipresent threat from India has diverted the priorities and attention of policy-makers and government from internal problems of the country. More is invested in national security and defense at the cost of provision of basic education, health, civic amenities, water and other facilities, thus, affecting the economic strength of the country. Moreover, problems related to provincial grievances, ethnic issues and regional polarization resulted in internal security problems. Absence of real time economic activities, political instability and skewed policies have allowed the ethnic and regional forces to exploit situation in their favor to add more grey areas in the country with focus in Sindh and Balochistan.³⁴

CPEC and its Impact on Economy

CPEC is being termed as game changer for Pakistan with inclusive regional prosperity. It forms a new driving force with estimated 2% economic growth in our GDP. The inclusive development provides national integration & regional linkages, thus, positively impacting security both in domestic and regional terms. It also impacts governance through technological innovation. The new industrial parks and SEZs (Special Economic Zones) on the lines of Shenzhen model will have significant impact on nodal cities; Gilgit, Peshawar, Lahore, Quetta, Sukkur, Karachi, and Gwadar. This will also support mineral processing zones and develop tourism/ hospitality services and transforming our backward

coastal areas into arc of development with modern maritime clusters and oil & gas cities.³⁵

CPEC will turn Pakistan into a regional manufacturing and logistics hub, lucrative for FDI. Harvard predicts Pakistani GDP to grow by over 5% for next 8 years because of CPEC framework, injecting much needed foreign revenue and new jobs in multifaceted projects. Another area that CPEC will impact the most is both internal and external security. Pakistan being a frontline state in war on terror has suffered a lot, but CPEC, though an economic framework, is likely to support state's security outlook in multiple dimensions. In that, state security appears paramount, since Pakistan's arch rival sits just next door in the East and tries to have a monopoly on eastern sea and air routes, thus a direct wider road link with China through KKH gives multiple assurances in supply of weapons, equipment, and war material fully secured from enemy threat. In addition, to and fro exchange of war material will facilitate timely availability of these items.³⁶

CPEC, through its planned SEZs in those industrial parks, can mitigate major terrorist feeding areas and networks, thus, facilitating the security apparatus to have more positive controls both in congested urban and poor rural areas. The most positive element of this indirect security mitigation is that security will be ensured through expenditures and activities in the boosted economic cycle of the state rather than only accruing expenses on security, thus the benefit to the state will be two-fold; economic activity and elimination of security concerns.

Recommendations

What can we, in Pakistan, learn from the experience of successful countries like Malaysia and Turkey that have avoided serious economic difficulties and promoted equitable growth and better living standards for their people, besides ensuring the much needed national security? Following measures, if implemented in true letter and spirit, can prove significant in arresting the current situation faced by Pakistan:-

- First and the foremost recommendation is the sovereign guarantees for continuation of long term and sustainable economic policies. This would entail giving complete independence to monetary and financial institutions of the country, independent of political dispensation. The

courage to take unpopular decisions in the larger national interests, credibility and ownership of economic policies, capacity building, honoring competence by putting competent people at the right place and zero tolerance for corruption should be the hallmark of our future economic policies.

- The economic uplift of the country is recommended to be linked to the inclusive participation, establishment of rule of law, ensuring transparency, ruthless accountability, sustained policies, and full implementation of the conceived economic policies, the cornerstone of which should be structural reforms in all segments of the economy of the country.
- We need to re-orient our economy from import to export-driven regimes with total discouragement of ventures, which result into outflow of foreign exchange.
- Re-orientation of economic policies i.e. a paradigm shift from aid dependent, debt burdened economy to indigenization of our economy. This would entail giving focus to areas with the potential to catalyze the indigenous growth. The forbearer towards this end is to make agriculture as the centre of gravity of our economy.
- Tapping the huge youth potential by investing heavily in human resource development. The **Ehassas** and **Kamyab Jawan** programmes launched by the present Government are steps in the right direction. However, there is a need to change the culture of our youth from job-seeking to job-providing by encouraging a very strong entrepreneurial culture amongst the youth.
- For sustained economic growth, Pakistan will have to invest heavily in alternative energy, so as to eliminate our dependence on foreign exchange heavy hydro-carbon resources.
- The female emancipation and women empowerment will effectively double the productivity level of the country. Strategizing the female work force of rural areas and their employment in the agro-based economy would give positive yields, while maintaining the cultural values of our society.
- Investment in Big Data would bring in the much needed and much delayed technology revolution in our young work force.

- Strengthening law enforcement institutions and promoting national integration and cohesion to improve internal security and defend the country against internal/external threats. This would also entail synergy on various elements of government, de-radicalization of society, addressing root causes, regulating financial flows, and establishing responsive criminal judicial system.
- Expansion of GDP to tax ratio and expenditures may be prioritized towards infrastructure development, energy sector and growth of small industries.
- The need for developing a strong Military Industry Complex (MIC), with a very strong export orientation to make defence expenditures an instrument of economic growth

Conclusion

Pakistan is undergoing a tumultuous period of its economy, in which it has been once again forced to knock at the doors of IMF for a bail-out package. However, having been through its worst period, its financial indicators are showing a sign of improvement. International endorsement of economic measures in the shape of improved ease of doing business, a positive review by the IMF mission and a very encouraging visit by the Head of World Bank are all indicators of economy moving in the right direction. With improved law and order situation and favorable policies, the environment is gradually improving for investors. There is a need for keeping the impetus of the upward trajectory through sustained economic policies, so as to create fiscal space for investment in human capital and an improved human security. There is also a need to tread carefully and maintain a balance between keeping the leading financial institutions in good humor, while simultaneously keeping our strategic interests, especially CPEC, intact.

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